

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Beaver Island Transportation Authority		County Charlevoix	
Fiscal Year End 9/30/06		Opinion Date 02/07/07		Date Audit Report Submitted to State 3/31/07			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No significant issues		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Harris Group, CPAs		Telephone Number 231-946-8930		
Street Address 1107 E. 8th Street		City Traverse City	State MI	Zip 49686
Authorizing CPA Signature		Printed Name Ronald G Harris, CPA		License Number 1101024798

BEAVER ISLAND TRANSPORTATION AUTHORITY
REPORT ON FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

February 8, 2007

Members of the Authority's Board
Beaver Island Transportation Authority
Beaver Island, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2006, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Beaver Island Transportation Authority, Charlevoix County, Michigan, as of September 30, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the Special Revenue Fund.

Beaver Island Transportation Authority has not presented a management discussion and analysis that the Government Accounting Standards Board has determined necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 8, 2007 on our consideration of Beaver Island Transportation Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required budgetary comparison information and additional information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Certified Public Accountants

Basic Financial Statements

BEAVER ISLAND TRANSPORTATION AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

Current Assets:	
Cash and cash equivalents	\$ 105,667
Accounts receivable	2,267
Boat study	<u>13,846</u>
Total current assets	<u>121,780</u>
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>5,780,188</u>
	<u><u>\$ 5,901,968</u></u>

LIABILITIES AND NET ASSETS

Liabilities:	
Accounts payable	\$ 22,729
Due to State	<u>42,796</u>
Total current liabilities	<u>65,525</u>
Net assets:	
Invested in capital assets, net of related debt	5,780,188
Unrestricted	<u>56,255</u>
Total fund balances	<u>5,836,443</u>
	<u><u>\$ 5,901,968</u></u>

The notes to the financial statements are an integral part of this statement.

BEAVER ISLAND TRANSPORTATION AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (expenses) And changes in Net assets
		Charges for Services	Operating Grants and Contributions	
			Capital Grants and Contributions	Total
Governmental activities:	\$ 841,022	\$ 289,273	\$ 232,304	\$ 115,604
				\$ (203,841)
General revenues:				
				384
				2,263
				2,647
CHANGES IN NET ASSETS				
				(201,194)
				6,037,637
				\$ 5,836,443

The notes to the financial statements are an integral part of this statement.

BEAVER ISLAND TRANSPORTATION AUTHORITY
BALANCE SHEETS
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Special Revenue Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 105,667	\$ 105,667
Accounts receivable	2,267	2,267
Boat study	13,846	13,846
	<u>\$ 121,780</u>	<u>\$ 121,780</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 22,729	\$ 22,729
Due to State	42,796	42,796
	<u>65,525</u>	<u>65,525</u>
Total liabilities		
	<u>65,525</u>	<u>65,525</u>
Fund balances:		
Unreserved:		
Undesignated	56,255	56,255
	<u>56,255</u>	<u>56,255</u>
Total fund balances	<u>56,255</u>	<u>56,255</u>
	<u>\$ 121,780</u>	<u>\$ 121,780</u>

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Funds	\$ 56,255
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds:	
Cost of capital assets	6,821,628
Accumulated depreciation	<u>(1,041,440)</u>
Total net assets - governmental activities	<u>\$ 5,836,443</u>

The notes to the financial statements are an integral part of this statement.

BEAVER ISLAND TRANSPORTATION AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Special Revenue Fund	Total Governmental Funds
REVENUES:		
State grants:		
Capital	\$ 115,604	\$ 115,604
Operating assistance	232,304	232,304
Local sources	289,273	289,273
Interest income	384	384
Reimbursements	2,263	2,263
	<hr/>	<hr/>
Total revenues	639,828	639,828
	<hr/>	<hr/>
EXPENDITURES:		
Labor	40,050	40,050
Fringe benefits	9,993	9,993
Services	13,493	13,493
Materials and supplies	370,519	370,519
Utilities	10,118	10,118
Insurance	10,182	10,182
Taxes	3,064	3,064
Miscellaneous	8,016	8,016
Leases and rentals	26	26
Capital outlay	145,454	145,454
	<hr/>	<hr/>
Total expenditures	610,915	610,915
	<hr/>	<hr/>
NET CHANGES IN FUND BALANCES	28,913	28,913
	<hr/>	<hr/>
FUND BALANCES:		
Beginning of year	27,342	27,342
	<hr/>	<hr/>
End of year	\$ 56,255	\$ 56,255
	<hr/>	<hr/>

The notes to the financial statements are an integral part of this statement.

**BEAVER ISLAND TRANSPORTATION AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Amounts reported for governmental activities in the statement of activities are different because:

Total net change in fund balances – governmental funds	\$	28,913
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Capital outlays to purchase capital assets and books are recorded in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and depreciated over their estimated useful lives as annual depreciation in the statement of activities.

This amount by which depreciation exceeded capital outlays in the period.

	Capital outlays	145,454	
	Depreciation expense	<u>(375,561)</u>	(230,107)
			<hr/>

Change in net assets of governmental activities	\$	<u>(201,194)</u>
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The notes to the financial statements are an integral part of this statement.

BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Beaver Island Transportation Authority (the Authority) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority was created under the Public Transportation Authority Act No. 196 of the P.A. of 1986 as amended, on January 6, 1993. The incorporating political subdivision is St. James Township.

The purpose of the Authority is to plan, promote, purchase, acquire, establish, own, operate, or cause to be operated, maintain, improve, enlarge, and modernize a mass transit system in the greater Beaver Island area.

The Authority Board is comprised of five (5) members appointed by the governing bodies of the political subdivisions participating in the Authority. Representation on the Board is proportional to the population of the respective political subdivisions.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Authority. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The Authority has no responsibility for any fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

The Authority reports the following major governmental funds:

The *special revenue fund* is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, interest and charges for services are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the Authority and are recognized as revenue at that time.

**BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity

1. Cash and investments

Cash includes amounts in demand deposits and certificates of deposit.

State statutes authorize the Authority to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The Authority is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

The Authority Board has designated one bank for the deposit of Authority funds.

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet in the governmental fund financial statements.

3. Capital Assets

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the Authority as assets with an initial individual cost of more than \$500 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property and equipment of the Authority is depreciated using the straight line method over the following estimated useful lives:

Building and improvements	40 yrs
Ferry	30 yrs
Fence	20 yrs
Dock	15 yrs
Parking lot	10 yrs
Ferry improvements	10 yrs
Security system	10 yrs
Miscellaneous capital outlays	10 yrs

**BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, Liabilities and Equity (continued)

3. Capital Assets

Machinery and equipment	7 yrs
Boat study	5 yrs
Computer equipment	5 yrs
Office equipment and furnishings	5 yrs
Vehicles	5 yrs

4. Compensated Absences

The Authority does not have a compensated absence policy.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

The Authority does not have any long-term obligations.

6. Fund Balance

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

7. Use of Estimates

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The Authority follows these procedures in establishing the budgetary data reflected in the financial statements:

**BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - continued

1. The Authority Administrator submits to the Authority Board a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to October 1, the budget is legally adopted by the Board of Trustees resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated.
4. The Administrator is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Authority Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to September 30th.

B. Excess of expenditures over appropriations

During the year ended September 30, 2006, the Authority incurred expenditures in numerous budgetary funds which were in excess of amounts appropriated.

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK

Cash and cash equivalents are held separately in the name of the Authority by each of the Authority's funds.

Deposits

At year-end, the carrying amount of the Authority's deposits were \$105,667 and the bank balance was \$118,195 of which \$100,000 was covered by federal depository insurance and \$18,195 was uninsured and uncollateralized.

The Authority has no investments as of September 30, 2006. The Authority has the following risk disclosures:

Interest Rate Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK - continued

Credit Risk – The Authority’s investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Authority shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Authority shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Authority held in trust by the financial institution or bank. The Authority may choose collateralization in the following form and percentages:

1.	U.S. Treasury Notes	-	100%; or
2.	U.S. Treasury Notes and/or Bonds	-	75% and
3.	Mortgage Backed Securities	-	25%

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the following collateralization at a minimum once very quarter of the Authority.

The Authority has no investment policy that would further limit its investment choices.

Concentration of Credit Risk – The Authority places no limit on the amount the district may invest in any one issuer.

BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS

NOTE 4 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS

Capital asset balances and activity for the year ended September 30, 2006 were as follows:

	Beginning of year	Additions	Retirements/ Reclassifications	End of year
Ferry	\$ 3,776,941	\$	\$	\$ 3,776,941
Ferry improvements	156,140	53,310		209,450
Dock	1,069,284			1,069,284
Building and improvements	544,904	1,100		546,004
Miscellaneous capital outlays	461,724			461,724
Vehicles	165,623			165,623
Machinery and equipment	154,096	77,782		231,879
Parking lot	114,814			114,814
Fence	101,032			101,032
Computer equipment	61,167			61,167
Security system	45,962			45,962
Boat study	15,974			15,974
Office equipment	8,513	13,261		21,774
	6,676,174	145,454		6,821,628
Accumulated Depreciation	665,879	375,561		1,041,440
Net capital assets	<u>\$ 6,010,295</u>	<u>\$ (230,107)</u>	<u>\$</u>	<u>\$ 5,780,188</u>

NOTE 5: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Authority has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Independent Contractor (Beaver Island Boat Company) that operates the ferry vessel shall provide workers' compensation insurance coverage for personnel used in the operation of the ferry vessel and maritime insurance coverage for personnel used by the Independent Contractor in the operation of the ferry vessel.

The Independent Contractor shall be responsible for insuring the vessel provided by the Authority under the terms of this Agreement and shall provide for protection and indemnity insurance coverage, excess liability coverage, and hull and machinery coverage. Said coverage shall be paid for and provided by the Independent Contractor with the Authority named as second insured.

**BEAVER ISLAND TRANSPORTATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: PENSION PLAN

The Authority does not provide a pension plan for its employees.

NOTE 7: MANAGEMENT/OPERATING AGREEMENT

The operation of a ferry between Beaver Island and Charlevoix is necessary for the public welfare, good and convenience of the citizens of Beaver Island. The Authority has the power to provide a system of transportation for its citizens and is authorized to subcontract the management and operation of a ferry service to a third party.

The Beaver Island Transportation Authority (BITA) agreed to a management services agreement with the Beaver Island Boat Company (BIBCo), dated May 29, 2003.

The term of this Agreement shall be thirty (30) years, commencing December 21, 1993.

REQUIRED SUPPLEMENTARY INFORMATION

BEAVER ISLAND TRANSPORTATION AUTHORITY
SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS
YEAR ENDED SEPTEMBER 30, 2006

	Budgeted Amounts			Variance with Final Budget- Favorable (unfavorable)
	Original	Final	Actual	
REVENUES:				
State grants:				
Capital	\$	\$	\$ 115,604	\$ 115,604
Operating assistance	275,000	275,000	232,304	(42,696)
Local sources	275,000	275,000	289,273	14,273
Interest income	500	500	384	(116)
Reimbursements			2,263	2,263
Total revenues	550,500	550,500	639,828	89,328
EXPENDITURES:				
Labor	41,600	41,600	40,050	1,550
Fringe benefits	9,600	9,600	9,993	(393)
Services	11,850	11,850	13,493	(1,643)
Materials and supplies	465,816	465,816	370,519	95,297
Utilities	6,200	6,200	10,118	(3,918)
Insurance	9,000	9,000	10,182	(1,182)
Taxes	2,025	2,025	3,064	(1,039)
Miscellaneous	4,385	4,385	8,016	(3,631)
Leases and rentals	24	24	26	(2)
Capital outlay			145,454	(145,454)
Total expenditures	550,500	550,500	610,915	(60,415)
NET CHANGES IN FUND BALANCES	\$	\$	28,913	\$ 28,913
FUND BALANCES:				
Beginning of year			27,342	
End of year			\$ 56,255	

BEAVER ISLAND TRANSPORTATION AUTHORITY
SCHEDULE OF OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2006

	<u>Operations</u>	<u>Maintenance</u>	<u>General Administration</u>	<u>Total 2006</u>
Labor:				
Operating salaries and wages	\$	\$	\$ 40,050	\$ 40,050
Fringe benefits:				
Other fringe benefits			13,057	13,057
Services:				
Advertising			802	802
Accounting - audit			2,800	2,800
Other services			5,054	5,054
Materials and supplies consumed:				
Fuel and lubricants	370,519			370,519
Other supplies		7,355	2,063	9,418
Utilities:				
Utilities			7,920	7,920
Telephone			2,164	2,164
Sanitation			34	34
Casualty and liability cost:				
Liability and property damage insurance			9,743	9,743
Insurance – other			439	439
Miscellaneous expenses:				
Travel			2,515	2,515
Association dues and subscriptions			232	232
Miscellaneous expenses			688	688
Leases and rentals			26	26
Depreciation	<u>360,839</u>		<u>14,722</u>	<u>375,561</u>
TOTAL EXPENSES	<u>\$ 731,358</u>	<u>\$ 7,355</u>	<u>\$ 102,309</u>	<u>\$ 841,022</u>

**BEAVER ISLAND TRANSPORTATION AUTHORITY
SCHEDULE OF NET ELIGIBLE COSTS COMPUTATIONS
OF GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2006**

Expenses:	
Labor	\$ 40,050
Fringe benefits	13,057
Services	8,656
Materials and supplies	379,937
Utilities	10,118
Casualty and liability insurance	10,182
Miscellaneous expenses	3,435
Rentals	26
Depreciation	<u>375,561</u>
 TOTAL EXPENSES	 <u>841,022</u>
Less ineligible expenses:	
Depreciation:	
Grant assets	375,561
Capital grant expenses not capitalized	<u>853</u>
 Total ineligible expenses	 <u>376,414</u>
 NET ELIGIBLE EXPENSES	 <u>\$ 464,608</u>
 Maximum reimbursement 50%	 <u>\$ 232,304</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

February 8, 2007

Members of the Authority's Board
Beaver Island Transportation Authority
Beaver Island, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Beaver Island Transportation Authority, Michigan (a component unit of St. James Township), as of and for the year ended September 30, 2006, which collectively comprise the Beaver Island Transportation Authority's basic financial statements and have issued our report thereon dated February 8, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Beaver Island Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Beaver Island Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees and management and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

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